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NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

THESIS

**THE ROLE OF THE STATE AND OPPOSITION TO
NEOLIBERAL REFORM: A COMPARATIVE ANALYSIS
OF CHILE AND ARGENTINA**

by

Darrick M. Berens

December 2014

Thesis Advisor:
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A COMPARATIVE ANALYSIS OF CHILE AND ARGENTINA**

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requirements for the degree of

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The purpose of this thesis is to expand on the existing literature covering Latin American economic reform through a new take on the state/opposition relationship that accounts for the differences in neoliberal consolidation in Chile and Argentina. More specifically, it identifies the management tactics employed by the state to diminish anti-neoliberal mobilizations and how these tactics adjust over time with changes in government. This thesis isolates and analyzes the consistency of state opposition management tactics across various administrations and its effect on the consolidation of a stable neoliberal model. In Chile, consistency in management tactics across successive governments has fostered the consolidation and stability of their neoliberal model. Conversely, in Argentina, the strength of the neoliberal model has suffered greater alterations due to the inconsistency in opposition management tactics used by the Kirchner administrations when compared to previous governments.

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LIST OF ACRONYMS AND ABBREVIATIONS

ATE	Association of State Workers
CGT	General Workers Confederation
CNT	Comando Nacional de Trabajadores
CTA	Argentine Workers Central
DINA	Directorate of National Intelligence
GDP	gross domestic product
IMF	International Monetary Fund
PEM	Minimum Employment Plan
PJ	Partido Justicialista
POJH	Occupational Program for Heads of Households
UDI	Democratic Independence Union
UHHP	Unemployed Heads-of-Household Program
UPCN	Union of Civil Personnel of the Nation

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I. INTRODUCTION

When a military junta took control of Chile from President Salvador Allende in 1973, the new bureaucracy soon began a process of neoliberal reform. The slow, far-reaching project transformed the Chilean economy, setting the country on a path of stable, consistent economic growth that continued for the next several decades. Chile has become a showcase for the effects of neoliberal reform and a model for positive growth both in Latin America and the world. Argentina embarked on its own process of neoliberal reform in the early 1990s, which sparked a short-term rise in growth for the country. However, the road has not been so smooth for Argentina, which has since experienced a rollercoaster of positive and negative growth in annual gross domestic product (GDP) over the next few decades.¹ While the liberalizing changes have taken hold and endured in Chile, the changes in Argentina have not found a solid base and have been more elusive in producing economic stability.

Radical structural adjustment projects like the ones undertaken by Chile and Argentina create pockets of both support and opposition among various interested groups. Opposition groups, in particular, often seek to reverse the neoliberal policies put in place in an effort to reduce its negative effects. In other words, these groups want to weaken the economic model that the state wishes to impose. Several questions become immediate: 1) How does the battle between these two poles affect the long-term strength of the neoliberal project? 2) What tactics are employed by the state to manage opposition groups? 3) Do changes in government and tactics affect the trajectory of the neoliberal process?

Contention to reform can have a large effect on how well the state can focus on and implement new policies. Opposition groups can affect the structure and purpose of policies while diverting attention and resources from leadership reform goals. Sustained mobilization of contentious groups and state tactics in response may determine how well the state can solidify the reform process and stabilize the new economic path. This study

¹ “World Databank,” The World Bank, accessed May 22, 2014, <http://databank.worldbank.org/data/views/reports/tableview.aspx?isshared=true#>.

will endeavor to compare the political and economic history of Chile and Argentina since each country began neoliberal reform to determine how opposition management tactics by the state affect the course of the neoliberal process and the resulting strength of its economic structure.

A. STATEMENT OF PURPOSE

The purpose of this thesis is to expand on the existing literature covering Latin American economic reform through a new take on the state/opposition relationship that accounts for the differences in neoliberal consolidation in Chile and Argentina. More specifically, it identifies the management tactics employed by the state to diminish anti-neoliberal mobilizations and how these tactics adjust over time with changes in government. This thesis isolates and analyzes the consistency of state opposition management tactics across various administrations and its effect on the consolidation of a stable neoliberal model.

This study works under the assumption that reforms, policies, and institutions associated with neoliberalism help the political and economic system absorb shocks, both external and internal, in order to achieve economic growth in terms of GDP. As such, the form of Chilean and Argentine neoliberal models likely affects the trajectory of each country's economic growth, however, the causal effects of this relationship is beyond the scope of this thesis. Instead, this study seeks to explain the variances in adjustments to the neoliberal structures of each country due to deviations in the state/opposition relationship.

A study of this type is important for various reasons. In the context of today's global economy, countries around the world are constantly opening and closing their markets for reasons that depend on each nation's interests and domestic situation. As these processes evolve, presenting case studies allows decision makers the opportunity to evaluate their own nation against the case studies to find free market policies and methods that might be successful. In this spirit, this comparative analysis of the Chilean and Argentine cases may teach policymakers about productive economic policies and the effects of opposition to those policies. What will the addition or adaptation of new or

existing institutions truly mean for the economy and society? What unforeseen side effects to the domestic economy may arise from a new trade agreement? How will interest groups react? Whether working individually or in concert, these opposition groups present a challenge to the goals of the state when implementing policy changes. Studying the lessons provided by others' experiences helps one avoid the same mistakes or hardships.

A comparison of Chile and Argentina in terms of economic growth will further supplement current comparative studies of this nature. Certainly, the endgame of current research is attempting to identify direct causes of growth in order to provide some policy guidance for decision makers, who, by nature of the process, are feeling in the dark. When discussing the effects on the economy by improving institutions, Rodrik posits "cross-national studies...are just the beginning that point us in the right direction."² This study may help to understand the trajectory of economic growth when reform occurs in the presence of opposition forces.

B. METHODOLOGY

The most important problem raised in this study is how opposition management tactics by the state account for the differences in consolidation of reform policies and strength of the neoliberal model experienced by Chile and Argentina after embarking on neoliberal reform. To answer this question, I analyze the different processes of neoliberal reform and the effects of the relationship between the state and opposition groups for both countries. The goal is to identify what factions of opposition were present in each country during attempts at reform, the management tactics used by the state in response to these factions, and how these factions impacted the reform process.

First, this thesis reviews the trends of current literature on the subject of opposition to neoliberal reform and the implementation strategies of neoliberalism taken by the state. It individually addresses Chilean and Argentine case studies along these lines and provides in-depth analysis of their economic trajectories. Within these case

² Dani Rodrik, Arvind Subramanian, and Francesco Trebbi, "Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development," NBER Working Paper no. 9305 (February 2004): 23.

studies, the consistency of state actions in response to contentious movements across time is examined. State actions are applied to opposition groups from the international and domestic business elite, worker union organizations, and civil society. For the purpose of this thesis, discussions of civil society encompass any individual not affiliated with the business elite or unions. Specifically, the poor, unemployed, and informal workers fall into this group. Empirical evidence and data is provided through the use of primary and secondary sources.

The dependent variable is the consolidation of a stable and strong neoliberal model in each country. The dependent variable is measured against adherence to accepted definitions of orthodox neoliberal principles. The independent variables are the types of tactics employed by the state to manage opposition to neoliberal reform and the consistency of those tactics' use across successive governments. Thus, the effects of management tactics and consistency on the adjustment of the neoliberal models in Chile and Argentina are analyzed.

The main argument developed is that consistency in applying management tactics to deal with opposition groups is a major factor in the maintenance of a stable, strong economic model. After its implementation during the military dictatorship, the neoliberal model in Chile sustained very few major adjustments through the consistency of actions across several administrations. By contrast, Argentina's neoliberal model has experienced several adjustments to its primarily orthodox structure because the most recent two presidential administrations have altered the tactics used by previous governments to address neoliberal opposition.

In order to fully develop this main purpose, a definition of neoliberalism and its underlying principles is required. Neoliberalism calls for a minimalist state and is embodied in the generally accepted Washington Consensus, which contains a list of desirable policies to guide nations toward economic development.³ The rationality for countries turning to neoliberalism lies in the freeing up of capital to be used by the

³ John Williamson, "The Washington Consensus as Policy Prescription for Development," in *Development Challenges in the 1990s: Leading Policymakers Speak from Experience*, ed. Timothy Besley and Roberto Zagha (Washington, DC : New York: World Bank ; Oxford University Press, 2005), 33.

market in its natural course.⁴ At their heart, neoliberal principles are each aimed at regaining capital mobility from the constraints of the state and regulatory institutions. As a result, this newly freed capital is expected to create an environment of increased production, competition, and economic growth. Conversely, structures that are created that purposely channel or control the flow of capital are viewed by neoliberal supporters as introducing inefficiencies in market operation and detract from the economic model.⁵ Examples of these detrimental structures include a large state presence through regulatory agencies, barriers to trade, nationalized businesses, and price controls. Liberalization of the labor market is also viewed as freeing up capital from rigid institutions through the assumption that businesses will have more flexibility to adjust to market forces and compete in their sector. For the purpose of this thesis, the strength of the neoliberal model in Chile and Argentina is measured against the growth of state regulation in terms of trade barriers, nationalization, price controls, and influence of unions against the flexibilization of labor. Where these factors are increased, the consolidation of the neoliberal model is considered decreased and less stable.

⁴ Andrew Gamble, "Neo-Liberalism," *Capital & Class* 25, no. 3 (January 2001): 131.

⁵ Eva A. Paus, "Economic Growth through Neoliberal Restructuring? Insights from the Chilean Experience," *The Journal of Developing Areas* 29, no. 1 (October 1994): 32.

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II. REVIEW OF THE LITERATURE

Economic reform of any kind often faces the problem of winners and losers during the transition from the old system to the new. Groups that have a vested interest in the direction and outcome of these reforms can come in many shapes and forms. Often, the success of radical economic reform, such as the neoliberalism undertaken by Chile and Argentina, can be strongly influenced by the presence of these strong interest groups that contend the reforms in order to maintain the status quo. Those that seek to retain the old system play a vital role in the formation of the new system although this largely depends upon access to or influence on policymaking decisions the political system provides them.

Thus, the relationship between the state and opposition groups is crucial to the development and consolidation of an economic neoliberal system. Much of the existing literature revolving around the politics of economic reform in Latin America and, by extension, the role of opposition groups falls into two camps: 1) the actions of the state to impose the neoliberal agenda upon the nation and 2) the creation and mobilization of anti-neoliberal actors. The scholarship in these areas are extensive and varied, however, a shortfall exists in the development of the relationship between these two poles and their effect on the neoliberal model as a whole. In most cases, current literature analyzes one side of the relationship without fully evolving the interaction between the two. Furthermore, the resulting effect on the economic system is often taken for granted and not evaluated as a function of the state/opposition relationship. This thesis seeks to expand upon that shortfall through a comparison of Chile and Argentina.

Within the first camp of literature, authors focus on the political motivations and goals toward economic reform. Opposition action is often taken as one input among many for policymaking decisions. Haggard and Kaufman (1992) present an institutionalist perspective on economic reform in a broad study of several countries. Although the aim of the book is to delve into economic reform processes during democratic transition, the lessons can be applied to the introduction and solidification of the new economic model. The study shows that during times of economic crisis and

social hardship, leaders can use public support to gain the authoritative power to circumvent institutional structures that block reform.⁶ In other words, the leaders can carry out reforms in the face of traditional interest groups and opposition parties. This viewpoint relies heavily on the autonomy of the state to act accordingly. Consequently, the role of opposition is negated, as the state is able to accomplish its task without involvement with these groups. Furthermore, the resultant effect on the economic model is downplayed.

A more balanced viewpoint, yet still within the first camp, is provided by Kurt Weyland in *The Politics of Market Reform in Fragile Democracies* (2002). He argues that democratic leaders decide to pursue risky economic reform during times of crisis and gain support for those reforms based on a cost-benefit analysis by all parties involved.⁷ The psychological theory presented in the book discusses the choice of people to pursue risky options when they find themselves in the domain of losses.⁸ In other words, they choose to accept the hardships of radical economic reforms when the context of the upside outweighs the desire to maintain the status quo. To this effect, Weyland is speaking to the state/opposition relationship. His theories are extremely useful although the portrayal of society is one-dimensional in their choice of yes or no. Thus, the outcome of the economic model falls solely on the shoulders of political leadership through policy adoption and creating a domain of gains for society. Furthermore, the adjustment of neoliberal policies by successive administrations over time is not included in his calculus.

Scholars that fall into the second camp and focus on the creation and mobilization of anti-neoliberal groups similarly fall short of presenting a complete picture. Eduardo Silva (2009) offers a detailed look at the reason why contentious action toward neoliberal reform has arisen in some Latin American countries and not in others. The foundation for his argument relies on the premise that neoliberal reform is the motive for mobilization in each country. Other factors—associational space, economic crisis, transformative

⁶ Stephan Haggard, and Robert R. Kaufman, eds., *The Politics of Economic Adjustment: International Constraints, Distributive Conflicts, and the State* (Princeton, N.J: Princeton University Press, 1992), 25.

⁷ Kurt G. Weyland, *The Politics of Market Reform in Fragile Democracies: Argentina, Brazil, Peru, and Venezuela* (Princeton, NJ: Princeton University Press, 2002), 3.

⁸ Ibid., 40.

mechanisms, and a reformist thrust to major protest movements—predict whether or not a movement will materialize.⁹ Backed up by sound empirical evidence, Silva demonstrates that opposition, in certain circumstances, can gain the strength to influence political decision-making. These conclusions have significance, to be sure; however, the political responses he portrays focus more on social programs that do not have lasting implications on the neoliberal model. His study stops short of providing the consequences these movements produced on economic reform consolidation.

Silva does, however, provide a framework for comparative analysis that is quite useful for the purposes of this thesis. He looks at the mobilization efforts across several Latin American countries and relates them based on capacity.¹⁰ In other words, how capable is each movement at gaining the power to effect change. This study can employ Silva's framework to expand upon his research and identify the likelihood that an opposition movement, in relation to state actions, may disturb the implementation and consolidation of neoliberal reform processes and modify the long-term outcomes.

While the majority of literature falls within the two camps described above, some authors have been successful in more thoroughly developing the state/opposition relationship in regards to economic reform. Similar to Weyland (2002), Hector Schamis (1999) concentrates on the desire of losing interest groups to contend with reform and the management of that contention by the reformers to get past the opposition.¹¹ Hector Schamis terms these perspectives on the reformer/opposition relationship as “the politics of neutralizing the loser.”¹² In his study, he takes a different tack by recognizing the role collective action can play in policy change. In this framework, the reformers develop collective action groups in support of economic liberalization in the form of coalitions. By organizing winners, the reformers build their capacity to implement reform and offset

⁹ Eduardo Silva, *Challenging Neoliberalism in Latin America* (Cambridge ; New York: Cambridge University Press, 2009), 3.

¹⁰ Ibid.

¹¹ Hector E. Schamis, “Distributional Coalitions and the Politics of Economic Reform in Latin America,” *World Politics* 51, no. 2 (January 1999): 237.

¹² Ibid.

the influence of opposition, or the “politics of empowering the winners.”¹³ Hence, Schamis acknowledges the back-and-forth interaction between government and opposition. Sebastian Etchemendy (2001) echoes this coalition-building approach in Latin America with a focused study of Argentina.¹⁴ Again, the long-term implications of this relationship on the economic model across successive administrations is not fully developed and left incomplete.

As stated earlier, opposition groups can come in many forms, have disparate goals, and employ several techniques in pursuing those goals. Sidney Tarrow (2011) provides an excellent study that takes a look at contentious politics and the relationship between the movement and the state. He defines contentious politics as ordinary people banding together to confront the national state, authority, or other opponents.¹⁵ Groups within a nation find a common cause or grievance and are motivated to engage in contentious politics. As they grow in strength, social movements evolve in an attempt to put a voice to the group’s concerns and effect change. Tarrow’s insight into social movements and contentious politics builds a solid working model of the operations of opposition.

James Franklin (2009) presents an interesting discussion on likely government responses to contentious politics. He determines that governments can choose any of four options toward opposition: give concessions, repress the challenges, tolerate the challenges by doing neither, or combine both tactics of concession and repression.¹⁶ Each choice comes with different costs and benefits in terms of dealing with short-term and long-term outcomes. Specifically, these outcomes impact political backlash and future challenges. It is in this respect that Franklin’s study provides insight into long-term consequences of government response to contentious politics, particularly the resources

¹³ Schamis, “Distributional Coalitions and the Politics of Economic Reform,” 238.

¹⁴ Sebastián Etchemendy, “Constructing Reform Coalitions: The Politics of Compensations in Argentina’s Economic Liberalization,” *Latin American Politics and Society* 43, no. 3 (October 2001): 1–35.

¹⁵ Sidney G. Tarrow, *Power in Movement: Social Movements and Contentious Politics*, 3rd ed. (Cambridge; New York: Cambridge University Press, 2011), 6.

¹⁶ James C. Franklin, “Contentious Challenges and Government Responses in Latin America,” *Political Research Quarterly* 62, no. 4 (December 2009): 701.

governments commit to dealing with opposition. Similar to Silva's work, Franklin's study provides the framework to assess the impact on reform consolidation, making his contributions a useful analytical tool for this thesis.

In sum, the literature discussed above each provides extensive research, solid empirical evidence, and valid conclusions for their purposes. Nevertheless, as a whole, the current literature leaves a gap with respect to the role of the state/opposition relationship on the consolidation of the neoliberal model. More specifically, none accounts for the consistency across administrations as a factor on the stability and strength of the neoliberal system. To illustrate the effects of consistent actions, the following chapters expand on aspects of the works reviewed above in case studies of Chile and Argentina. The analysis of these case studies is compared within the final chapter and conclusions drawn based on the results.

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III. A STUDY OF CHILE

The aim of this chapter is to piece through the political and economic history of Chile since embarking on neoliberal economic reform during the Pinochet era that set the stage for decades of positive, sustained growth. Many scholars contend that this would not have been possible were it not for the severe repression of reform opposition carried out by the dictatorship. This determination is insufficient. Significant oppositional forces were present in the form of coalitions and mass mobilizations. Recent literature is starting to focus more on alternative forms governmental actions toward opposition to neoliberal reform in Chile, and, as I show, Chilean governments have historically used several tactics other than repression to manage these challenges. It is the combination of these tactics that allowed Chile to cement the neoliberal economic model in Chile and benefit from years of economic growth. However, this is not the only necessary factor that helped Chile consolidate its neoliberal model. As the current literature fails to appreciate, I show that, along with the management of opposition, a government must be consistent and stable in its actions and responses toward opposition in order to entrench an economic structure. This is a two-dimensional argument. One factor affects the other. Chilean governments have been able to use management tactics in a consistent manner to keep oppositional influence low. Thus, throughout subsequent changes in government, very little variations in the form of the neoliberal structure were introduced, except in efforts to change socioeconomic and political inclusion. Growth has been historically strong due to this stable economic environment. In the next chapter, I show that Argentina was similarly able to implement radical neoliberal reform in the presence of coalitions and mass mobilization; however, its inconsistency and instability in government actions across time affected the efficacy of its neoliberal model.

Chile is widely considered the first true test of the neoliberal economic system. In 1973, a military junta led by General Augusto Pinochet seized control of the government from the Salvador Allende administration while in the midst of a harsh economic crisis. When the military took over, the nation was ready for change. The primary tasks of the new government were to establish their authority and garner the support of the people.

Seen as a threat to national security and one of the principal reasons for staging the coup, the ailing economy became the government's foremost project. The decision was made to introduce radical neoliberal policies, thereby freeing market forces to get the economy back on track. In 1975, the Chilean government under General Pinochet initiated "shock therapy" to achieve these goals.¹⁷

With the state of affairs such as they were in 1973, why would Chile decide to attempt such radical structural change as that proposed by neoliberal principles? Beginning in 1970, Salvador Allende was also taking the Chilean economy in a radical direction, albeit in the opposite direction as Pinochet eventually would, giving Chile a sort of economic whiplash in a span of five years. The nationalization of productive sectors, initiation of widespread price controls, and expropriation of land was driving an already weak economy even further toward crisis.¹⁸ Chile's longstanding democracy was taking a socialist turn. During the previous few decades, Chile had steadfastly ascribed to the import substitution model and protectionism. These tactics soon showed their weaknesses as high inflation, unemployment, and unfavorable international market pressures stagnated the economy.¹⁹ Domestic issues brought on by the crisis coupled with international pressures by lenders such as the International Monetary Fund (IMF) pushed General Pinochet to lean toward a relatively untested economic model.²⁰

The military government that assumed responsibility immediately realized they needed advisement in the matter and relied heavily on technocrats to run the economy.²¹ The navy, which was put in charge of the economy, would soon bring in a civilian economic team known as the Chicago Boys, named so due to their shared training in the Chicago-style of economics. Holding tight to their educational training, this team of

¹⁷ Juan Gabriel Valdés, *Pinochet's Economists: The Chicago School in Chile*, Historical Perspectives on Modern Economics (Cambridge; New York: Cambridge University Press, 1995), 20.

¹⁸ Sebastián Edwards, *Monetarism and Liberalization: The Chilean Experiment* (Cambridge, MA: Ballinger, 1987), 5.

¹⁹ *Ibid.*, 5–6.

²⁰ Marion Fourcade-Gourinchas, and Sarah L. Babb, "The Rebirth of the Liberal Creed: Paths to Neoliberalism in Four Countries," *American Journal of Sociology* 108, no. 3 (November 2002): 548.

²¹ Valdés, *Pinochet's Economists*, 17.

economists proposed that only a strict neoliberal structure would restore lasting strength to the economy. With the blessing of Pinochet, the Chicago Boys began implementing neoliberal reform, following a stringent, almost scientific formula of free market mechanisms. Their goal was to firmly impose this radical structure and change the entire nature the Chilean political, social, and economic relationship by fostering a long-term ideological shift toward acceptance of a free market society.²²

As we dig into the Chilean adoption of neoliberal principles and trace the effects of opposition through time, it is useful to divide the historical analysis into four time periods. These time periods are based on significant changes in both economic policy and regime transition. The first period, running from 1973–1983, is a time of transition into a new, radical economic system. During this time, the initial round of neoliberal policies were introduced amidst low levels of reform opposition. Some positive growth in GDP was experienced, but the expected recovery was not completely realized. Limited political liberalization began occurring toward the end of this timeframe. The second time period covers from 1983–1989. Over these six years, Chile felt the full brunt of an economic crisis that led to a second round of less orthodox economic reforms. The period ends with the fall of the military dictatorship and a strengthening economic outlook. Encompassing 1990–2010, the third period analyzes the first 20 years of democratic government. During this timeframe, the political party coalition, Concertacion, presided over four consecutive governments while retaining the neoliberal policy agendas started under the dictatorship. GDP growth was stable and positive. Lastly, we will look at Chile from 2010 to the present to identify the latest trends in economic growth and opposition to the neoliberal structure. Across each of these time periods, consistent responses and actions of the government toward reform opposition will allow for the fostering of a stable, dependable economic model.

A. THE CHILEAN NEOLIBERAL TRANSITION

Levels of opposition to reform have fluctuated through time and across changes in government. These movements have occurred in response to and helped shape radical

²² Valdés, *Pinochet's Economists*, 37.

neoliberal reforms that have fundamentally redesigned the economic structure in Chile. On this topic, one important point should be discussed. Chile began its neoliberal process under the harsh repression of a military government, and then continued it within a more forgiving democracy. As many studies not-unjustly contend, one might easily attribute Chile's successful execution of such radical principles to severe repressive tactics that silenced all dissent.²³ Although the well-documented use of repression against challenges to reform is not denied, opposition was still present and able to shape policy albeit in limited ways. Therefore, one cannot simply write-off Chile's successful economic model to the context of an authoritarian regime cementing its neoliberal structure by forcing its policies on a weak and kowtowed society.

1. The Initiation Period, 1973–1983

Following the military coup in 1973 and the decision to move ahead with neoliberal reform, the shock therapy of initial policies began in 1975. During this first phase, the Chicago Boys, along with other actions, removed nearly all price controls, privatized over 400 firms and banks, reduced barriers to trade, cut public employment, freed interest rates, and reorganized the labor structure. All of these actions were done over the course of a year with the overall goal of greatly reducing government involvement in the economy.²⁴ When taking into account the speed with which these changes were unleashed on the nation, shock therapy is an apt term.

Opposition to the new policies of neoliberal principles, although limited during this period, came in the form of two groups: winners and losers. The winners were those groups that had a lot to gain from an opening international economy. On the other hand, the losers were those groups that were at risk of losing their influence, jobs, and even their entire business because of greater marketplace competition and trade policies. During this period, the clear winners were the business groups that operated in the

²³ David Pion-Berlin, "Political Repression and Economic Doctrines: The Case of Argentina," *Comparative Political Studies* 16, no. 1 (April 1983): 37–66; Juan Gabriel Valdés, *Pinochet's Economists: The Chicago School in Chile* (Cambridge, UK; New York: Cambridge University Press, 1995).

²⁴ Valdés, *Pinochet's Economists*, 22–23.

international sector of the economy, namely banks and financial firms.²⁵ More specifically, businesses that were strategically placed to acquire newly privatized firms and capitalize on the rapid deregulation of the financial sector.²⁶ As an oppositional force, they had a strong motivation to see that the new reforms were carried out quickly and in such a way as to benefit them even more. These groups had an advantage during the opening stages of neoliberal reform.

International sector businesses were in a prime position to affect the formation of the initial round of reforms in their favor. A few of the international sector businessmen and the Chicago Boys had a history of employment together, which the businessmen used to gain access to information and participation in early policy formation.²⁷ These connections and the nature of their firms allowed international sector businesses to gain control of the Chilean market and steer it in a direction that was more radically implemented and beneficial to them (Etchemendy, 2011; Silva, 1996).

Labor and domestic business, most notably those industrial sector groups that flourished under the previous import substitution model, were not as fortunate during this period. The founding principles of a neoliberal model put these groups at a severe disadvantage. Tariffs and other barriers to trade were removed along with price controls.²⁸ These policies served to greatly reduce the protection of the import sector and introduce greater levels of competition in the market. Businesses that could not challenge in their field went bankrupt and folded. In a similar fashion, the labor market was liberalized and unions lost significant negotiating influence with employers. One of the earliest acts by the Pinochet government was to prohibit any union activities.²⁹ The domestic business groups did not enjoy access to the information and policy-making contacts like the financial sector groups. Attempts by labor and domestic business to

²⁵ Sebastián Etchemendy, *Models of Economic Liberalization: Business, Workers, and Compensation in Latin America, Spain, and Portugal* (New York: Cambridge University Press, 2011), 226.

²⁶ Eduardo Silva, *The State and Capital in Chile: Business Elites, Technocrats, and Market Economics* (Boulder, CO: Westview Press, 1996), 104–105.

²⁷ Ibid., 107.

²⁸ Valdés, *Pinochet's Economists*, 22–23.

²⁹ Paus, “Economic Growth through Neoliberal Restructuring?,” 39.

challenge the radical reforms were largely ignored as government processes became evermore centralized around Pinochet and his nearest advisors.³⁰

As forms of opposition, domestic business and labor were largely ineffective. Domestic business groups were weak and did not have the influence to make an impression. Avenues to express their grievances were almost non-existent for groups outside the sphere of influence in the dictatorship. Keeping consistent with the strict implementation of the neoliberal market, the Chicago Boys viewed the compensation of domestic businesses as a violation of those principles that would introduce inefficiencies into the market.³¹ The market, not the state, was seen as the sole decider of which businesses are able to stay and compete and which are to disappear. Thus, at low cost to the state and market system, Pinochet was able to ignore complaints from these businesses.

Organized labor was effectively decimated as a source of opposition in this first period of economic reforms. Often one of the first actors to mobilize against layoffs and downsizing, Chilean labor groups were subjected to harsh repressive tactics and legislative controls. The story of top labor leader, Tucapel Jimenez, who was assassinated for his opposition to neoliberal policies, is indicative of the repressive environment of the late 1970s.³² The privatization of pensions and health services separated workers from their benefits and weakened their organization. In an effort to institutionalize this process, the 1979 Plan Laboral (Labor Plan) was decreed through a series of laws. The plan seemed to have a two-fold effect. First, the combination of these laws and the privatization of welfare programs effectively suppressed immediate opposition from this group because of the loss of job security. Labor was exposed to market forces, thus giving employers the power to fire without cause and offer little to no severance pay in certain circumstances.³³ Second, the plan slightly opened political space for unions to

³⁰ Silva, *State and Capital in Chile*, 111.

³¹ Valdés, *Pinochet's Economists*, 27.

³² Etchemendy, *Models of Economic Liberalization*, 18.

³³ Peter Winn, ed., *Victims of the Chilean Miracle: Workers and Neoliberalism in the Pinochet Era, 1972–2002* (Durham, NC: Duke University Press, 2004), 32–33.

organize and challenge aspects of the Plan Laboral. Decree laws 2756 and 3355 reversed the previous ban on union activity and reestablished four types of union organizations with limited protection powers and collective bargaining.³⁴ Although significant gains were not made, mining unions were able to begin building support within some political parties and elite groups in the early 1980s.³⁵

Although civil society, represented by the lower class and poor, did not play a significant oppositional role during this period, an important process was started that would impact the course of economic policy during Chile's transition to democracy. Towards the end of this period, the Pinochet government would decide to undertake political liberalization. The reasons for this action are varied. Winn claims that external pressure—namely, from the Carter administration in the United States—caused Pinochet to back down from severe levels of repression.³⁶ Others suggest that Pinochet wanted to gain political support with civil society following the Chacarilla speech and 1980 constitution (Etchemendy, 2011; Silva, 1996; Silva, 2009). Regardless of the motivations, the government sought to ease the effects of market forces on the poor by shifting “subsidies and resources away from the middle and working classes in the formal sector of the economy to the extreme poor.”³⁷ The Minimum Employment Plan (PEM) and the Occupational Program for Heads of Households (POJH) were created as part of a social compensation strategy.³⁸

This period started a trend of consistent actions and responses by the government toward certain groups of opposition. Early in the process of neoliberal reforms, the government realized it would benefit from the support of capitalist businesses that had a vested interest in the neoliberal model. Pinochet decided to allow the coalition of financial sector business firms to have access to policy formulation as a way to manage their opposition. He simply ignored the domestic industrial business firms that struggled

³⁴ Winn, *Victims of the Chilean Miracle*, 33.

³⁵ Silva, *Challenging Neoliberalism in Latin America*, 263.

³⁶ Winn, *Victims of the Chilean Miracle*, 32.

³⁷ Etchemendy, *Models of Economic Liberalization*, 228.

³⁸ Ibid.

in the new economic environment, offering no compensation to soften the effects of free market forces. Labor was subjected to legislative restrictions and utter repression that led to the massive fragmentation of organized labor. Finally, with the purpose of gaining popular support, the government developed mechanisms for social compensation to ease the severity of liberalization targeted at the poor, the unemployed, and informal workers.³⁹ These trends of consistency and managing opposition through a variety of tactics by incorporating a business coalition for support, marginalizing or repressing “outside” business groups and labor, and building a support base with poor civil society would provide a stable, almost predictable environment in which Chilean governments could instill the neoliberal structure. Even when the government was forced to deviate from this recipe, it did so in small, non-destabilizing ways.

This period ended in economic crisis that changed the power structure of opposition and adjusted those groups that had access and influence in policy making. The Chicago Boys briefly backtracked to protect their reforms in the midst of the economic crisis, thus the door was open for a shift in power among business elites.⁴⁰ The financial sector groups began to feel the squeeze in profitability as exports declined and real exchange rates appreciated.⁴¹ Political liberalization brought about the easing of repressive tactics, the dissolution of the Directorate of National Intelligence (DINA) in 1980, and the incorporation of the poor. These circumstances set the stage in the next period for a substantial shift in economic reforms.

2. The Adjustment Period, 1983–1989

After experiencing an uptick in economic growth following the initial round of neoliberal policies in the late 1970s, Chile experienced a sharp reversal in the early 1980s and fell into economic crisis. Although several other Latin American countries were in a similar situation when world prices fell, the cause of the Chilean problems cannot be attributed solely to the international environment. Foundational neoliberal principles

³⁹ Etchemendy, *Models of Economic Liberalization*, 227.

⁴⁰ Edwards, *Monetarism and Liberalization*, 106.

⁴¹ *Ibid.*, 99.

determine that any intervention by the state would introduce inefficiencies in the operation of the free market. This belief, when combined with the strict neoliberal implementation plan conducted by the Chicago Boys, caused the economic team to let the market correct itself as they expected it would. There were signs as early as 1981 that pointed to a potential Chilean economic crisis, but the economists, confident that all the proper pieces were in place for the system to recover on its own, held to a strict “do nothing” approach.⁴² The expectations did not materialize as inflation, unemployment, and bankruptcies skyrocketed and GDP fell 15 percent.⁴³ Among the groups experiencing the full brunt of the crisis were the middle and working classes as layoffs and business closings escalated.⁴⁴ Although some scholars argue that due to their neoliberal policy structure Chile was able to recover faster than other Latin American countries, economic circumstances had clearly reversed and the political economy felt increased domestic and international pressure for adjustment to the neoliberal model.⁴⁵

Although the Initiation Period is when the building blocks of the neoliberal model were set in Chile, the Adjustment Period from 1983–1989 is when the pragmatic policies that would mark Chile as a neoliberal pioneer would be introduced. The long-term economic stability that would be generated from this time period is due, in large part, to the consistency of the state’s management of oppositional forces that were slowly building momentum.

The neoliberal process also benefited from the way in which the government enacted changes during the Adjustment Period. A new direction with respect to economic policies was adopted, new oppositional forces gained political influence, and the government deepened its strategy of political liberalization. Each of these relatively substantial alterations was approached in a gradual, deliberate manner, yet still remained largely consistent with actions and procedures from the Initiation Period. Thus, further

⁴² Valdés, *Pinochet’s Economists*, 27.

⁴³ Ibid., 28.

⁴⁴ Winn, *Victims of the Chilean Miracle*, 41.

⁴⁵ Raphael Bergoeing et al., “A Decade Lost and Found: Mexico and Chile in the 1980s,” *Review of Economic Dynamics* 5, no. 1 (January 2002): 1.

destabilization of the tenuous economy during the crisis was avoided and the period ended in significant GDP growth.

The post-crisis period of the 1980s was a turning point for Chile, in terms of consolidating a lasting neoliberal economic structure. The Pinochet government was scrambling to right the ship in the face of mass mobilization responding to the economic crisis. The financial business elites that played such a pivotal role in the Initiation Period were losing their influential positions to a coalition of domestic and internationalist business factions at the same time that economists and advisors realized that the dogmatic approaches to orthodox neoliberal measures were not working and more pragmatic policies were needed.⁴⁶ Opposition that was previously repressed began to test the limits of small openings in political space due to political liberalization.⁴⁷

The majority of those within the government and in business circles realized that a change in economic policy was necessary to bring Chile out of the crisis while opposition groups that were experiencing the full effects of the crisis were doing their best to ensure the government took action. The Chicago Boys went on the defensive to protect their project and guard it from anti-liberal moves. The economist team and most of the financial business groups from the Initiation period advocated a continuation of the same neoliberal policies. Although Pinochet continued to back the Chicago Boys and supported neoliberalism, the financial groups that enjoyed access to policy formation were weakened by the events of the crisis and lost their influence.⁴⁸

Here is where the consistent actions and management of opposition by the Chilean government maintained a certain stability within the state that allowed them to strengthen and keep the neoliberal model moving forward. First, a coalition of domestic and international businesses that advocated a more pragmatic approach to the economy was gaining public momentum as they criticized the government. Similar to the actions during the Initiation Period, Pinochet sought support from capitalist groups that were able

⁴⁶ Silva, *State and Capital in Chile*, 152.

⁴⁷ Winn, *Victims of the Chilean Miracle*, 43.

⁴⁸ Silva, *State and Capital in Chile*, 155.

to promote economic growth. Where the radical financial coalition previously filled this role, the government turned to the growing pragmatic coalition. Again, these actions managed the opposition directly by bringing them into the fold. Although Pinochet allowed small changes to the political structure throughout this period that provided greater interaction between the business coalition and the state, he was still able to protect policymakers from concerted oppositional pressures by limiting access.⁴⁹ By staying consistent and avoiding drastic modifications, the government was able to navigate through and adjust to the circumstances brought on by the crisis without destabilizing the neoliberal economic system.

Labor remained relatively weak in this time period although some groups were pressing the limits of political space gained from political liberalization. In response to the economic crisis, the working, middle, and, eventually, factions of the upper class began to openly demonstrate against Pinochet's rule and the 1980 constitution.⁵⁰ Beginning in May 1983, one day a month became a National Day of Protest when demonstrators took to the streets. Nationwide strikes were conducted to demand better wages, better working conditions, and, ultimately, the repeal of Plan Laboral.⁵¹ These anti-neoliberal, anti-Pinochet protests continued until 1986 when the government was able to regain its control and quell the demonstrations through directed acts of repression when the protests became violent. The Comando Nacional de Trabajadores (CNT), a labor union that coordinated with oppositional political parties, was formed. Although the weakened labor unions were unable to secure large concessions or affect economic policy, they were able to build a coalition with the Christian Democrats and form an influential political party, the Democratic Alliance.⁵² The state sustained its tactics of managing labor opposition through law in the form of Plan Laboral and reduced levels of repression.

⁴⁹ Silva, *State and Capital in Chile*, 155–161.

⁵⁰ Carlos Fortin, "The Failure of Repressive Monetarism: Chile, 1973–83," *Third World Quarterly* 6, no. 2 (April 1984): 324.

⁵¹ Winn, *Victims of the Chilean Miracle*, 43.

⁵² Silva, *Challenging Neoliberalism in Latin America*, 253.

The state continued its political liberalization goals during this period, which pertained directly to the role of civil society. As the nation was climbing out of the crisis and oppositional political parties were gaining support, the Pinochet government moved aggressively toward securing support for the regime by building a popular base with the poor. The Democratic Independence Union (UDI) became the formal supporting party for the regime and focused its efforts on organizing in the poor areas.⁵³ Taking into account the context of the mid-1980s and the growing trend toward a possible democracy, the goal of the UDI was to develop networks that would support the goals and policies initiated by Pinochet, to include the neoliberal agenda.⁵⁴ These networks were the only outlets available to civil society as a source of opposition.

In the end, this period ended with Chile reversing the economic crisis and achieving high levels of GDP growth. Chile experienced an average growth in GDP of over 7.5 percent per year between 1984 and 1989.⁵⁵ The same oppositional management tactics that allowed Chile to initiate the neoliberal policies that ended in crisis enabled the government to adjust and return to a strong economy in the Adjustment Period. Clearly, these actions were a small, yet important, piece of the recovery process. By maintaining control of opposition and portraying stability in the face of crisis, the government was able to induce the return of foreign capital, which, along with the rise in copper prices, was a reason why Chile was able to recover so quickly relative to other Latin American countries. Another reason was the maintenance of certain early reforms in the midst of the shift to pragmatic policies.⁵⁶

All things equal, this period was integral in the formulation of the Chile that exists today. The move toward more pragmatic economic policies provided more flexibility and options for the state to make adjustments when it deemed market forces were insufficient. Important and influential political parties were created and consolidated that would have

⁵³ Etchemendy, *Models of Economic Liberalization*, 238.

⁵⁴ Ibid., 239.

⁵⁵ "World Databank," The World Bank, accessed October 29, 2014, <http://databank.worldbank.org/data/views/reports/tableview.aspx?isshared=true#>.

⁵⁶ Bergoeing et al., "A Decade Lost and Found," 2.

a significant impact during the transition to democracy. Neoliberal oppositional groups were learning where the institutional roadblocks toward contentious politics lay and in what ways the state could be expected to react to challenges. Each of these elements provided increasing stability and predictability to the inner workings of Chile. The state was consistent in its goals and actions while radical economic alterations were avoided. Although the leading group shifted, business coalitions maintained their elite access. Labor remained on the margins of affecting policy. Civil society persisted as an agent of change rather than an actor.

3. The Democratic Period, 1990–2010

The challenge for the Chilean government during this period was to sustain the current economic momentum while establishing legitimacy in the regime transition. Prior to the popular elections of a democratic government, Pinochet was able to install fairly rigid law-based protections to establish a strong political right and institutionalize the neoliberal economic structure.⁵⁷ Any attempt to reverse many of the constitutional structures enacted in 1980 required a significant coalitional effort. In terms of economic stability, these actions both helped and hurt. On one hand, the flexibility to take necessary economic actions for the new democratic government was severely limited. On the other hand, conducting massive alterations and disruptions in an already fluid transitional period could have major political, economic, and social ramifications, thus the limits on state actions could be seen as a positive. As with the Adjustment Period, consistency in actions and management of opposition was key to maintaining stable growth. This consistency was greatly benefited by the fact that all the democratic governments that ruled during this period came from the same coalitional political party, the Concertacion. Continuing the trend of the Pinochet government, coalitions of capitalist businesses were incorporated into the policy process, labor opposition was marginalized, and civil society was targeted for reform in order to establish a support base for the regime and ease the effects of market forces.

⁵⁷ Wendy Hunter, "Continuity or Change? Civil-Military Relations in Democratic Argentina, Chile, and Peru," *Political Science Quarterly* 112, no. 3 (October 1997): 456.

One of the most important decisions made by the first democratic government was to hold on to neoliberal principles. Despite the current economic success when the Concertacion coalition took office, their previous stance on liberalization left this decision in doubt. The Concertacion evolved out of the Democratic Alliance, which criticized the government's neoliberal model during the mass mobilizations of 1983–1986. The subsequent acceptance and continuation of the pragmatic neoliberal model by the Concertacion could be attributed to several factors. Consistent with the earlier motivations of the Pinochet government, the Aylwin administration would correspondingly seek a capitalist business ally for legitimacy and stability of the government's economic policies. As this support was dependent on the pragmatic neoliberal principles that the business coalition fought for against Pinochet, Aylwin assured this group the model would not be undone and adjustments would be moderate.⁵⁸ The state and capitalist business came to a compromise, just as it did during the Pinochet era, in order to diffuse “the historical and ongoing tension between the imperative of capital accumulation and the conflicts over socio-political inclusion and distribution.”⁵⁹ Again, the government employed the management tactic of incorporating potential oppositional business groups into the political process.

The new democratic governments of this period did not experience increased pressure from labor movements when compared to the Adjustment Period. Labor organizations were significantly weakened during the Pinochet era and continued to be ineffective as an oppositional force. As Silva demonstrates, in the absence of a strong labor movement in Chile, other parties and groups organized to fill the empty space. Fledgling labor unions were forced to join these groups and play a supporting role to promote their grievances. This dynamic gave the state a substantial negotiating advantage against an oppositional group that has historically led political movements.⁶⁰ Liberalization of the labor market was continued during this period with few changes to

⁵⁸ Kurt G. Weyland, “Neoliberalism and Democracy in Latin America: A Mixed Record,” *Latin American Politics and Society* 46, no. 1 (April 2004): 145.

⁵⁹ Patrick S. Barrett, “The Limits of Democracy: Socio-Political Compromise and Regime Change in Post-Pinochet Chile,” *Studies in Comparative International Development* 34, no. 3 (Fall 1999): 4.

⁶⁰ Silva, *Challenging Neoliberalism in Latin America*, 258–259.

the 1979 Plan Laboral or other labor policies.⁶¹ Agacino and Madrigal (2003) provide an in-depth analysis of the Chilean labor organizations in the 1990s that depicts a severely underrepresented group that was non-existent as a viable source of opposition.⁶²

Where the dictatorship focused on consolidating power and pressing economic reform onto the populace, the Concertacion governments pushed to increase political inclusion and socioeconomic reforms to help civil society, in particular, deal with some of the harshness inherent in neoliberalism. This tactic was aimed at demobilizing sources of opposition in the popular sector that were worst affected by the market society created under the dictatorship.⁶³ The governments during this period maintained their promises to keep the economic structure, but gradually and consistently implemented significant socioeconomic reforms within the confines of neoliberal principles. Networks of institutions that reached throughout society and provided responsible forums for promoting grievances were created in an effort to diffuse tensions that could lead to contentious actions. Social programs and subsidies that reduced free market pressures were also developed. The Concertacion took every opportunity to remove features left from the authoritarian government.

The key takeaway from these actions was that most forms of opposition during this period were actively engaged and softened by the state with the end result of low levels of neoliberal opposition. By working toward political inclusion and socioeconomic reforms, the government was able to derail sources of opposition at the grassroots level. The economy was booming, trade and business was expanding, and civil society was enjoying a newfound level of political participation.

Through the consistency of dealing with opposition, maintaining a unified, overarching goal within the Concertacion, and focusing on small, incremental changes while retaining the fundamental structure of the pragmatic neoliberal model, Chile was

⁶¹ Winn, *Victims of the Chilean Miracle*, 60.

⁶² Rafael Agacino, and María Madrigal, "Chile Thirty Years after the Coup: Chiaroscuro, Illusions, and Cracks in a Mature Counterrevolution," *Latin American Perspectives* 30, no. 5 (September 2003): 61–62.

⁶³ Silva, *Challenging Neoliberalism in Latin America*, 259.

able to fully consolidate neoliberal principles and achieve significant growth during the Democratic Period despite significant political and institutional changes introduced by the transition to democracy. Little changed in the circumstances of the main sources of opposition to neoliberalism represented by business coalitions, labor, and civil society during the transition from the dictatorship to democracy. The government was able to manage these forms of opposition in a similar fashion as previous periods, thus few structural economic modifications were forced to be made and economic stability was achieved. Chile was able to adjust failing policies, build upon a solid neoliberal foundation, and carve out an economic structure that would work for Chile.

4. The Current Period, 2010–present

An economic downturn in 1997 initiated by international events brought a temporary end to these rosy times and forced some underlying issues to the surface. Since the initiation of neoliberal reforms in 1973, social inequality in Chile has worsened. However, with the increase of political participation and interaction with the state in the 1990s, the population had more freedom and ability to begin voicing their dissatisfaction. While GDP growth has returned since the 1997 crisis, protests and demonstrations have persisted in the realm of social inequality and, most recently, education reform.

The consistency and management of opposition by the state that had worked so well in the previous decades against business coalitions, labor, and civil society is starting to show cracks that new forms of opposition are taking advantage of against neoliberalism. As previously discussed, the governments of the Democratic Period had focused social spending on the poor to alleviate market pressures and attack the poverty problem. In this way, the Concertacion and current governments have attempted to make relatively small modifications in education reform aimed at increasing quality and equity of schools, teacher pay, and access by all.⁶⁴ Providing subsidies to make education more affordable for all is proving an unsuccessful tactic as protesters desire constitutional changes. All things equal, these efforts had the limited effect of only mending the

⁶⁴ Patricio Navia, “The Original Sin in Chile’s Successful History of Development,” in *Handbook of Emerging Economies*, ed. Robert E. Looney (New York: Routledge, 2014), 235.

problems and not correcting the underlying education issues cemented by the 1980 constitution. Although a bill passed by Pinochet just prior to leaving office made education reform especially difficult, the current reform efforts by the state are insufficient, and opposition is growing.⁶⁵

The opposition to the education structure is ultimately getting at the heart of the inequality problem and neoliberalism. Chile has some of the best universities in the world; however, their private status and high costs have made them only accessible to the privileged few. This reinforces the inequality issue. Much of the current beliefs in Chile maintain that the government must make some changes to its economic approaches if growth is to continue, however, radical shifts in the neoliberal model are not desired.⁶⁶

The combination of neoliberalism and the compromise between the state and business elites has created a wealthy minority and inequality among the population. Business coalitions that have historically worked with the state continue to benefit from access to new privatizations while civil society is rewarded with more social programs and subsidies. In the meantime, labor continues to struggle to gain wage increases and better employment conditions against an institution that is biased toward employers and the state. In the Current Period, Chilean GDP growth has shown signs of slowing when compared to historic levels. Within this context, it is possible that the reliance on the same tactics of opposition management by the state may not be as successful as in the past to quell the new forms of opposition to education reform.

B. CONCLUSION

Chile is often touted as an economic success story due to its decades long episode of sustained, positive growth. This growth has occurred within a neoliberal model that has been cultivated by successive governments and accepted by the population as how Chile does business. The transition to neoliberalism has not been smooth and was not

⁶⁵ Navia, "The Original Sin in Chile's Successful History of Development," 237.

⁶⁶ Nick Miroff, "Chile Tax Overhaul Aims to Tackle Some of the Developed World's Highest Levels of Inequality," *The Washington Post*, May 4, 2014, http://www.washingtonpost.com/world/chile-tax-reform-plan-to-tackle-inequality-through-education-boost/2014/05/04/b5d52c71-9f0c-4a46-9867-6e86dcd5b4c_story.html.

without opposition to its policies. The state has consistently worked directly with capitalist business coalitions capable of creating economic growth to gain support for the neoliberal model while giving them access to shape policy. The state has steadily weakened labor through labor market reform as called for by neoliberal principles. Even during the democratic process when the state had opportunities to reform the labor code and bestow greater bargaining powers to unions and labor, the state stayed with its historical patterns of management and restrained that potentially powerful source of opposition. Finally, the state has remained dedicated to retaining the neoliberal model while at the same time easing its effects on civil society through social programs and subsidies. These actions have created a stable economic environment that has limited uncertainty in order for domestic and international business and investors to thrive. However, new forms of opposition desiring education reforms are proving difficult to manage using the state's traditional tactics. As a result, current governments are being forced to make deeper adjustments to the economic model, which is showing signs of slowing growth.

As this chapter has shown, the state's consistency and management tactics in dealing with certain sources of opposition to reform has allowed the state to keep the economic model intact with mostly minor modifications. In the next chapter, an analysis of Argentina, which was also able to institute radical neoliberal reform, shows how inconsistency in government actions and policies is a factor in its consolidation of the neoliberal model. Argentina has experienced several years of fluctuating growth and economic instability.

IV. A STUDY OF ARGENTINA

In this chapter, the development and adjustment of Argentina's current neoliberal economic structure beginning with President Carlos Menem is analyzed through the lens of the relationship between the government and opposition to neoliberal reform. Following the same general outline and goals of the previous chapter on Chile, the intent of this chapter is to demonstrate inconsistencies in successive administration's dealings with anti-neoliberal groups, which were present in varying sources and forms throughout this period. These inconsistencies in government actions have negatively impacted the consolidation of Argentina's neoliberal model and assisted in the creation of an uncertain, fluid economic system. Since neoliberal reform, Argentina has experienced relatively short spurts of GDP growth mixed with reversals. In its current status, it is difficult to classify Argentina's economy as stable.

Menem's neoliberal program was not the first attempt by Argentina government to install this model; however, it was the only one that was successful in terms of gaining relatively lasting accepted by subsequent administrations. Given the country's rocky history with implementing lasting neoliberal reform, several factors account for Menem's push to restructure based on the economic model. At the time when Menem assumed office, Argentina was in the midst of an economic crisis and was experiencing extreme hyperinflation. Some figures put the level of inflation around 11,000 percent between 1989 and 1990.⁶⁷ The economy, in terms of GDP growth, shrank by 7.5 percent in 1989.⁶⁸ Part of the impetus for Menem's neoliberal program might be because, as Weyland demonstrates, democratic governments are more willing to pursue risky, widespread reforms, and gain support for those reforms, when the country is faced with a severe economic crisis.⁶⁹ Menem was also responding to external pressure from international financial groups, such as the IMF and the World Bank that advocated

⁶⁷ Domingo F. Cavallo, "Argentina's Present and Its Intriguing Economic History," in *Handbook of Emerging Economies*, ed. Robert E. Looney (New York: Routledge, 2014), 335.

⁶⁸ "World Databank," The World Bank, last accessed November 5, 2014, <http://databank.worldbank.org/data/views/reports/tableview.aspx?isshared=true#>.

⁶⁹ Weyland, *Politics of Market Reform in Fragile Democracies*, 5–6.

economic adjustment plans.⁷⁰ Thus, it was time for meaningful change in the way that Argentina was conducting its economic business.

Menem was faced with several challenges in his effort to enact such severe economic restructuring. As some scholars discern, opposition groups often have greater opportunity to engage in political challenges in democratic regimes than in non-democratic regimes.⁷¹ In Argentina's democratic environment, Menem would need to keep the amount of contentious actions low in order to implement his radical policies. To accomplish this task, high levels of public and political support were needed. In addition, Menem's Peronist political party, the Partido Justicialista (PJ), was traditionally a populist party with a strong support base among the lower and working classes. It was entrenched in Argentine society and maintained deep ties with trade unions. As such, the PJ was highly critical of the previous administration's heterodox economic policies, calls for privatizations, and weak stance with international financial institutions.⁷² Thus, Menem's own party was historically, institutionally, and ideologically against the reforms he was trying to implement. So he needed to gain support not only from opposition political parties but also within his own. Argentina's historically strong unions, which were traditionally politically active and had been nurtured and protected by previous Peronist parties, also presented a challenge to neoliberal principles that advocated "flexibilization" of the labor market.⁷³ In the face of these challenges, the context of an economic crisis coupled with the grim outlook under the current economic structure caused Menem to pursue a neoliberal reform agenda.

Similar to the organization of the previous chapter, analysis of Argentina is broken in three time periods. The Reform Period covers 1989–1995, which encompasses

⁷⁰ Daniel Azpiazu, Eduardo M. Basualdo, and Hugo J. Nochteff, "Menem's Great Swindle: Convertibility, Inequality and the Neoliberal Shock," *NACLA Report on the Americas* 31, no. 6 (June 1998): 16.

⁷¹ Paul T. Bellinger, and Moises Arce, "Protest and Democracy in Latin America's Market Era," *Political Research Quarterly* 64, no. 3 (September 2011): 688–704; Adam Przeworski et al., *Democracy and Development: Political Institutions and Well-Being in the World, 1950–1990* (Cambridge, UK: Cambridge University Press, 2000).

⁷² Steven Levitsky, "Crisis, Party Adaptation and Regime Stability in Argentina: The Case of Peronism, 1989–1995," *Party Politics* 4, no. 4 (October 1998): 447.

⁷³ Gamble, "Neo-Liberalism," 132.

the initial round of neoliberal reforms during Menem's first term in office. During this period, Argentina shows signs of recovery from the economic crisis and experiences drastic reductions in inflation. Towards the end of the period, opposition to neoliberalism begins to build as the pain of the radical reforms starts to transform into another crisis. The Crisis Period is from 1995–2003, when Menem is elected to a second term. The administrations of De la Rúa, Duhalde, and other interim presidents are also encompassed in this period. Argentina witnesses its worst economic crisis in the country's history as neoliberal supporters attempt to hold the crumbling economy together. Finally, 2003 to present day represents the Backtracking Period as the economy experiences more ups and downs as each successive government tinkers with new and old strategies.

A. THE ARGENTINE NEOLIBERAL TRANSITION

The role of opposition to neoliberal reform and how the government responded is crucial to the level of entrenchment of neoliberalism in Argentina over time. As a response to oppositional pressures or to prevent collective action, successive Argentine governments, to include the Menem administration, have continually devised new and revised old policies to gain political support and reestablish economic growth. While the sources of opposition stayed fairly constant throughout this timeframe, the manner in which the state had promoted, demoted, appeased, or ignored them to achieve their goals was not. As a result, the neoliberal model was in a constant state of change while the Argentine economy suffered. The following sections will highlight the relationship of the state and neoliberal opposition as it pertains to the neoliberal structure in order to illustrate the relationship's variations over time.

1. The Reform Period

President Carlos Menem began the initial round of neoliberal reforms almost immediately upon assuming office in 1989. Adhering to an orthodox interpretation of the neoliberal model, the administration took steps to reduce barriers to trade, privatize nearly all state-owned companies, remove price controls, and drastically downsize the

public sector by eliminating thousands of government jobs.⁷⁴ It also sought to reorganize the labor market through wage decreases, limits to collective bargaining, and labor contracts that reduced barriers to freer hiring and firing practices by employers. These reforms, applied quickly in a form of economic shock therapy, had the immediate purpose of bringing inflation under control, stabilizing the currency, and restoring confidence in the economy.⁷⁵ A central feature to Menem's program was the Convertibility Plan of 1991, which locked the value of the peso to the U.S. dollar with a one-to-one convertibility. The plan was hugely successful in reducing inflation and creating a dependable currency.⁷⁶ By 1994, inflation was down to three percent annually and Argentina experienced four years of positive growth.⁷⁷

Menem was able to accomplish this feat, in part, by turning potential losers from neoliberal policies into winners. First on the list of potential losers were the giants of Argentine business. Proposed privatizations under the new economic structure proved a threat to their practices. The Law of State Reform put up for privatization 32 out of 400 state-owned enterprises with the rest soon to follow. The business sector had historically been opposed to privatization because they had been able to extract rents from the state by overcharging for public contracts.⁷⁸ To gain the support of the business groups, Menem offered them substantial concessions and discounts in public sales.⁷⁹ The ploy worked as the business sector stopped fighting privatization and purchased the state-owned enterprises.⁸⁰ In addition, the success of the Convertibility Plan in ending hyperinflation and stabilizing the currency was instrumental in weakening big business as a source of opposition to neoliberal reform when money began to flow into the country.

⁷⁴ Levitsky, "Crisis, Party Adaptation and Regime Stability in Argentina," 448.

⁷⁵ Cavallo, "Argentina's Present and Its Intriguing Economic History," 335.

⁷⁶ Silva, *Challenging Neoliberalism in Latin America*, 58.

⁷⁷ Cavallo, "Argentina's Present and Its Intriguing Economic History," 336.

⁷⁸ Javier Corrales, "Coalitions and Corporate Choices in Argentina, 1976–1994: The Recent Private Sector Support of Privatization," *Studies in Comparative International Development* 32, no. 4 (1998): 28.

⁷⁹ Daniel Treisman, "Stabilization Tactics in Latin America: Menem, Cardoso, and the Politics of Low Inflation," *Comparative Politics* 36, no. 4 (July 2004): 412.

⁸⁰ Corrales, "Coalitions and Corporate Choices in Argentina," 32.

Labor was another potential loser that Menem was able to turn into a partial winner and supporter of neoliberal reform. In order to pass policies that liberalized the labor market, the administration would need to weaken or remove unions as a source of opposition. Similar to the management tactics used with the business sector, concessions and special dispensations were used to coopt the labor unions. Menem was able to create conflict among unions by favoring some while, at the same time, ignoring others. The Union of Civil Personnel of the Nation (UPCN), a traditionally Peronist union that represented mainly national public employees, was given access to state agency restructuring talks and special collective bargaining status in exchange for acceptance of some worker downsizing during labor reform.⁸¹ By making similar bargains with the General Workers Confederation (CGT), Menem was able to subdue a historical source of contentious action and protest.⁸² The Association of State Workers (ATE), a non-Peronist union that represented teachers and government health workers, was not given such concessions by Menem, who proceeded to make the majority of public employment cuts within the education and health systems.⁸³ Uncooperative unions were essentially repressed through restructuring, i.e., firing militant leaders, prohibiting strikes in certain sectors, and manipulating union elections.⁸⁴ It was these types of deals that allowed Menem to conduct labor reform, but also permitted unions to retain some level of associational power. Although some labor unions still had teeth as evidenced by the CGT retaining the right to administer private pensions in 1992, the tactics used by Menem to weaken labor as a source of opposition led to deep political exclusion and general organizational impotence.⁸⁵

Lastly, Menem needed to get a coalition of political parties on his side. Showing no sign of party loyalty, he again turned to special concessions and political appointments to curry favor with both opposition parties and his own. As Levitsky points out, “rather

⁸¹ Etchemendy, “Constructing Reform Coalitions,” 6–7.

⁸² Silva, *Challenging Neoliberalism in Latin America*, 60.

⁸³ Etchemendy, “Constructing Reform Coalitions,” 7.

⁸⁴ Silva, *Challenging Neoliberalism in Latin America*, 60.

⁸⁵ Ibid.

than downplaying the degree to which he was ‘betraying’ Peronist principles, Menem publicly embraced the shift, making grand gestures to emphasize his conversion.”⁸⁶ Somewhat at odds with the orthodox neoliberal model, yet in support of its consolidation, Menem centralized decision-making power around him in order to prevent other institutions from countermanding his policies or implementing acts of their own.⁸⁷ Therefore, while he was handing out political seats to allies and opponents alike, he was gathering power around himself.

On their own, civil society was not effective in opposing neoliberal reform. The majority of the working and lower classes supported the Peronist party and although Menem clearly shifted the traditional mechanisms behind the party, the PJ was able to maintain a significant support base among civil society. This may be because the average citizen did not understand the economic restructuring that was taking place and, therefore, did not realize the likely impact to them. Or, as Weyland points out, it is possible that the population accepted the highly risky and painful reforms because they saw it as the only way of possibly improving their situation.⁸⁸ Either way, massive popular mobilizations did not occur during the initial part of the Reform Period and only began to rise when the economy began to sour toward the end of the ’90s. Furthermore, Menem gained public support and eased the pain of neoliberal reforms by creating several social plans.⁸⁹ This tactic is another form of visibly handing out concessions in return for support, while at the same time bolstering neoliberalism through mechanisms that theoretically help the poor work themselves out of poverty.

This support by civil society does not mean to imply that no mobilizations occurred during the early reform years. Weakened labor unions were also seeking to establish a support base within civil society in order to oppose neoliberal reforms.

⁸⁶ Levitsky, “Crisis, Party Adaptation and Regime Stability in Argentina,” 448.

⁸⁷ Alfred P. Montero, and David J. Samuels, eds., “The Political Determinants of Decentralization in Latin America: Causes and Consequences,” in *Decentralization and Democracy in Latin America* (Notre Dame, IN: University of Notre Dame Press, 2004), 15.

⁸⁸ Kurt G. Weyland, “Swallowing the Bitter Pill: Sources of Popular Support for Neoliberal Reform in Latin America,” *Comparative Political Studies* 31, no. 5 (October 1998): 544.

⁸⁹ Weyland, *Politics of Market Reform in Fragile Democracies*, 176–177.

Although they were unable to generate substantial momentum or significant gains, some unions like the newly founded Argentine Workers Central (CTA) achieved considerable backing among the poor and unemployed. They pushed for the return of workers' rights and increased benefits and wages. Their reliance on contentious actions, such as strikes, demonstrations, and protests, gained for them even more followers. Although these actions remained mainly at the provincial level, some mobilizations such as citywide strikes in 1993 gained national media attention.⁹⁰

Thus, through granting privileged access, political appointments, and other special privileges, Menem was able to gather enough support to liberalize the Argentine economy by creating winners among potential losers. Party leaders, union representatives, business conglomerates, as well as the majority of the Peronist electorate allowed the government to pursue painful economic reform to pull the country out of crisis. Little opposition remained. With the stabilization of the currency, laissez faire market policies, and offers of shares in privatized companies, international investors brought much needed capital back to Argentina.

Although the IMF and other international financial organizations could not be classified as sources of opposition during this period, there is clear evidence that they were sources of influence in shaping policy during the Reform Period. Indeed, gaining financial backing from these institutions was crucial for Argentina to climb out of the economic crisis. Due to its high levels of debt and lack of foreign investment, the country did not have the capital to implement the neoliberal reforms on its own.⁹¹ Officials from the World Bank were directly involved in drafting policy, and receiving loans meant meeting conditions set by the IMF.⁹² During the Mexican financial crisis that spread to Argentina in 1995, the IMF supplied loans to help weather the storm and maintain its neoliberal policies.⁹³

⁹⁰ Silva, *Challenging Neoliberalism in Latin America*, 62–66.

⁹¹ David J. Keeling, *Contemporary Argentina: A Geographical Perspective* (Boulder, CO: Westview Press, 1997), 105.

⁹² Silva, *Challenging Neoliberalism in Latin America*, 59.

⁹³ Cavallo, "Argentina's Present and Its Intriguing Economic History," 336.

As the Reform Period wound to a close and Menem prepared for another presidential term, the Argentine economy had responded fairly well to neoliberal shock therapy. Inflation was down, and GDP growth was up. Menem had been able to meet his goals of implementing deep neoliberal reform by building strong coalitions of support, which was crucial to stabilizing the peso and attracting foreign investment. The government was able to turn losers from neoliberalism into winners, thereby short circuiting most forms of opposition. Menem was able to gain the cooperation of domestic and international business, unions, and political parties through the consistent use of privileged access, special favors, and political appointment while marginalizing uncooperative opposition groups.

Two major problems were quietly building during this time period that would greatly change the progress of the next period. First, by maintaining his core of supporters and excluding others, a strong group of outsiders were gathering to oppose the neoliberal model. A majority of these outsiders were union leaders, which were organizing in the provinces with social support, and political party leaders, which were developing factions and consolidating efforts during election time. Second, the Convertibility Plan was successful at reducing inflation, however, a vested interest by all parties was created in maintaining a stable currency. Without the plan, the systemic predictability provided by a stable currency would be gone, increasing the risk of capital flight and a stoppage of foreign investment. The currency stability policy became politically entrenched. According to Treisman, “Menem’s tactics were so successful at forging consensus on exchange rate stability that, perversely, they helped prepare the economic and political crisis of late 2001. Any talk of devaluation became taboo, even after a recession began in 1998.”⁹⁴

2. The Crisis Period, 1995–2003

Over the course of this period, the economic and political situation took a turn for the worse. The economy slowly weakened toward crisis, and due to several factors, Menem’s coalition of support crumbled along with it. First, there was a change in the

⁹⁴ Treisman, “Stabilization Tactics in Latin America,” 413.

political environment. Menem made a push for constitutional changes that would allow him a third term in office. This decision predictably caused rifts among the leadership of the PJ. These tensions attributed to the pronouncement that Congress would not renew the president's omnibus emergency powers, making it more difficult to gain approval for further reforms and policy adjustments.⁹⁵ Also, the Frepaso, a political party formed from a PJ faction and allied with the CTA, was able to gain some power and influence by winning some electoral seats, which placed them in a position of consequential opposition. Second, the recession stemming from the 1995 financial crisis in Mexico had applied even more pressure on those in society who were already feeling it from neoliberal policies, feeding the spread of discontent and mobilization. It quickly became clear which groups were going to stand by Menem and which were going to turn their backs. Third, unemployed and informal worker groups that were previously lacking the capacity or motivation to mobilize began to organize at the local and regional level.⁹⁶

Menem's efforts in the Reform Period to gain the support Argentine business groups continued to pay off as they maintained their backing of the neoliberal model. Clearly winners in the new economic landscape, these groups had a vested interest in the status quo. Here, again, is where currency stability was key. Argentina's businesses were securing profits through foreign investor's purchases of shares, which depended on the certainty provided by the Convertibility Plan. As a result, these business groups stepped in financially to calm the market during the 1995 recession when other groups began to withdraw capital.⁹⁷

Although Argentina weathered the crisis relatively quickly with the help of the IMF, union-led opposition, which was bolstered by the unemployed and poor in civil society, grew in strength, frequency, and national recognition. Hunger and daily subsistence were real problems at this time in Argentina, and the CTA and Frepaso were able to use those worries to gain mass support among the poor, unemployed, and

⁹⁵ Silva, *Challenging Neoliberalism in Latin America*, 69–70.

⁹⁶ Candelaria Garay, "Social Policy and Collective Action: Unemployed Workers, Community Associations, and Protest in Argentina," *Politics & Society* 35, no. 2 (June 2007): 308.

⁹⁷ Treisman, "Stabilization Tactics in Latin America," 412.

informal, lower-, and middle-class workers.⁹⁸ Labor and civil society essentially merged as anti-neoliberal organizations. Between 1995 and 1999, the CTA organized and led growing demonstrations in various forms against the government. Local neighborhood groups centered on the unemployed and informal workers induced roadblocks, *piquetero* demonstrations, and town uprisings. However, rarely did national attention or federal action take place. Instead, Menem allowed the provincial governments to handle negotiations with the contentious groups. The government, however, continued with its neoliberal policies and tactics of social exclusion. As an extension of Menem's tactics of concessions, governors and local leaders provided relatively small handouts to the protestors, such as workfare, food supplements, and debt relief. Some groups who were willing to cooperate received promises for public works programs and long-term employment.⁹⁹ Some scholars contend that the use of workfare plans as a form of concession to the unemployed and informal worker groups ultimately helped them organize and expand as a future source of opposition.¹⁰⁰ While this may be true, it could also be interpreted as a success for Menem's tactics. Getting the opposition to focus on and demand relief from a relatively inexpensive social policy diverted the groups from challenging bigger neoliberal policies and economic structure. As a result, the contentious actors made little progress toward inducing economic reform, but succeeded in creating a dense organizational network that brought various worker groups, local politicians, and union leaders together in support of an overarching cause. Thus, while protecting his neoliberal project in the short term, Menem's tactic of marginalizing uncooperative opposition groups gave them space to unify for future action.

By the end of his term in 1999, Menem had successfully avoided currency devaluation and handed off the problem of the stagnating economy to De la Rúa. With the help of the CTA and Frepaso, De la Rúa won the presidency on a platform that offered the possibility for adjustment to the neoliberal model. As a result, mobilization

⁹⁸ Silva, *Challenging Neoliberalism in Latin America*, 62–68.

⁹⁹ Ibid., 78.

¹⁰⁰ Garay, "Social Policy and Collective Action," 308.

and demonstrations were curtailed in hopes that these reforms would materialize.¹⁰¹ The weakening economic landscape coupled with Asian and Brazilian financial crises in 1997 and 1999, respectively, caused the new administration to cling to methods that had worked in the past. In fact, very little in the way of changes to the neoliberal model or the governments tactics toward opposition groups took place prior to the culmination of the crisis in 2001. Much of this was due to internal conflicts within the ruling party, which led to constant debating and little consensus on what to actually do.¹⁰² In the end, the Convertibility Plan was maintained while further austerity measures such as reducing revenue sharing to the provinces were conducted.¹⁰³ As previously stated, currency stabilization was too far ingrained in the political mindset.

However, the sense that the Convertibility Plan had run its course and devaluation of the peso was on the horizon began to appear among those with a vested interest. In particular, domestic and international business groups began to decrease investments in this uncertain period. Capital flight swelled as revenues declined and the deficit increased.¹⁰⁴ International lenders, which heretofore had been supporters of Argentina's policies, began to be sources of opposition. Around 2001, the IMF started to portray an ideological shift in how they prioritized decisions on assistance. This shift in thinking hardened their stance against the types of policy choices made by countries requesting finances by requiring strict conditions and fiscal plans prior to approving loans, a sort of "toughen-as-you-sink approach" toward Argentina.¹⁰⁵

As Argentina fell into deep economic crisis, the state had little legitimacy or governability amidst internal party conflicts and external mobilizations. Over the course of two weeks in December 2001 and January 2002, Argentina witnessed five different presidents. Massive demonstrations filled the streets of Buenos Aires on December 19--

¹⁰¹ Silva, *Challenging Neoliberalism in Latin America*, 87.

¹⁰² Javier Corrales, "The Politics of Argentina's Meltdown," *World Policy Journal* 19, no. 3 (October 2002): 34-35.

¹⁰³ Silva, *Challenging Neoliberalism in Latin America*, 88.

¹⁰⁴ Cavallo, "Argentina's Present and Its Intriguing Economic History," 336.

¹⁰⁵ Corrales, "The Politics of Argentina's Meltdown," 36-37.

20, 2001, amidst chants of “Out with the politicians!”¹⁰⁶ By the end of the day, De la Rúa had resigned. After three interim presidents were put in place by the legislature, Eduardo Duhalde from the PJ took the reins. Faced with high levels of social unrest and a hardline IMF, Duhalde devalued the peso by ending convertibility almost immediately upon taking office. Capital flight accelerated, foreign investment stopped, arguments over dollarized contract renegotiations ensued, and the Argentine economy collapsed. With nowhere else to go, Duhalde continued to try to meet IMF demands, and amidst growing unrest, announced early presidential elections in 2003.¹⁰⁷ With respect to the mobilized opposition groups, Duhalde returned to the tactic of concession. In an effort to appease the groups and contain discontent, expanded social programs and targeted schemes, such as the Unemployed Heads-of-Household Program (UHHP) and food plans.¹⁰⁸ The administration handed out “hundreds of thousands of six-month work plans to *piquetero* organizations and local Peronist bosses.”¹⁰⁹ The slight success of this maneuver to dampen the organizations gave the government a little space to focus on regaining stability within the government and the economy.

Staying mostly consistent in dealing with opposition throughout this period, very few adjustments to the neoliberal model were forced during the Menem and De la Rúa administrations. A lasting, consolidated neoliberal model was set in Argentina. To be sure, social unrest organized by anti-neoliberal groups and unions grew substantially toward the end of this period. However, by the time De la Rúa resigned, the government had essentially lost legitimacy and governability. Or, as O’Donnell more accurately stated in a general discussion of economic crises, “the crisis [led] to the decreasing plausibility of the state as an authoritative agent of the country’s interests.”¹¹⁰ Inter- and

¹⁰⁶ James F. Petras, and Henry Veltmeyer, *Social Movements and State Power: Argentina, Brazil, Bolivia, Ecuador* (London; Ann Arbor, MI: Pluto Press, 2005), 28.

¹⁰⁷ Corrales, “The Politics of Argentina’s Meltdown,” 39.

¹⁰⁸ Garay, “Social Policy and Collective Action,” 313.

¹⁰⁹ Petras and Veltmeyer, *Social Movements and State Power: Argentina, Brazil, Bolivia, Ecuador*, 42.

¹¹⁰ Guillermo O’Donnell, “On the State, Democratization and Some Conceptual Problems: A Latin American View with Glances at Some Post-Communist Countries,” *World Development* 21, no. 8 (1993): 1365.

intra-party conflicts and an impending economic crisis drew all political attention inside the government, and instead of the opposition forcing changes to the neoliberal model, they forced successive changes in administrations. Ultimately, a center-left government would be ushered into the presidency that would pursue mild economic reform.

3. The Backtracking Period, 2003–Present

After the Alianza government of Duhalde failed to correct the economy, Nestor Kirchner, of the Peronist party, gained the presidency. From the beginning, Kirchner would have to struggle to build legitimacy for his administration. Carlos Menem, who ran against Kirchner in the 2003 race, withdrew, causing Kirchner to accept the office without a majority vote in a run-off and robbing him of its legitimacy. As a result, Kirchner took on an agenda that seemed to be aimed at gaining public support. While maintaining the fundamental structure of the neoliberal program initiated by Menem, Kirchner changed the tactics used to deal with opposition groups, thus weakening the strength of the neoliberal model in Argentina.

The role of unions was pivotal in the neoliberal trajectory during this period. Most notably, the strengthening of unions' organizational and bargaining power allowed by Kirchner's administration is atypical of an orthodox neoliberal model. Neoliberalism often portrays unions as "rent-seeking groups that distort the real value of wages and general market equilibrium," which causes liberalizing governments to deregulate the labor market and atomize unions.¹¹¹ However, Kirchner had incentive to seek greater support of unions, especially some with anti-liberal leanings, for two reasons. First was to quickly gain legitimacy for his administration and ease the protests. More leftist unions such as the CTA led many of the largest demonstrations, but the government chose to work with the CGT as a more central ideological union.¹¹² Second, Kirchner's faction of

¹¹¹ Sebastián Etchemendy and Ruth B. Collier, "Down but Not Out: Union Resurgence and Segmented Neocorporatism in Argentina (2003–2007)," *Politics & Society* 35, no. 3 (September 2007): 384.

¹¹² Sebastián Etchemendy and Candelaria Garay, "Argentina: Left Populism in Comparative Perspective, 2003–2009," in *The Resurgence of the Latin American Left*, eds Steven Levitsky and Kenneth M. Roberts (Baltimore, MD: Johns Hopkins University Press, 2011), 293.

the Peronist party held more tightly to the party's traditional populist ideology in which the government and labor had a stronger connection of mutual support.¹¹³

Predictably, the government's tactics in dealing with unions was inconsistent with earlier administrations, and the Argentine neoliberal model was ultimately weakened. Kirchner sought to return more power to the unions by allowing and supporting conflict between employers and unions and also reforming the organization of labor. The government directly bolstered the union's bargaining position against employers by rarely choosing to invoke "mandatory conciliation" in labor conflicts, which forces the two sides to the negotiating table and ends any direct actions in progress.¹¹⁴ A new Labour Organization Act in 2004 reduced precarious hiring and firing practices, granting greater protection to workers. Also, the government supported a raise in wages through the Basic, Vital, and Movable Wage Council in 2006, causing further contract negotiations between labor and employers.¹¹⁵ By revitalizing unions across the board in this way, Kirchner acted directly counter to the efforts of Menem in the 1990s, whose neoliberal reforms trended toward labor flexibilization and easing of hiring and firing practices for employers. Where Menem had built his support base in the lower and upper classes through the clientelistic distribution of social programs and special concessions, Kirchner gathered support in the middle, which was severely impoverished by the 2001 crisis.¹¹⁶

Social programs and efforts at social inclusion expanded greatly during this time period. The level of social protest was still high at the beginning of this period, and unemployment hovered around 17 percent in 2003.¹¹⁷ To diminish the drive of the demonstrators—especially unemployed workers' organizations—and gain their support, Kirchner targeted and expanded social programs, like the UHHP, toward meeting some

¹¹³ Silva, *Challenging Neoliberalism in Latin America*, 99.

¹¹⁴ Etchemendy and Collier, "Down but Not Out," 390.

¹¹⁵ Cecilia Senén González, and Bárbara Medwid, "The Revitalization of Trade Unions and the Re-Emergence of Industrial Conflict in Argentina: The Case of the Oil Industry," *Journal of Industrial Relations* 51, no. 5 (November 2009): 712.

¹¹⁶ Weyland, *The Politics of Market Reform in Fragile Democracies*, 181.

¹¹⁷ Etchemendy and Garay, "Argentina: Left Populism in Comparative Perspective," 289.

of their demands and easing the pain of the free market system.¹¹⁸ Among other programs, the administration created public works projects, housing projects, and business start-up subsidies.¹¹⁹ The corresponding increase to social inclusion of the middle class helped to demobilize the large majority of opposition groups in sections of civil society. As a result, Kirchner was able to build a significant support base among the unemployed, union, and middle class groups in order to ease contentious actions and legitimize his administration. Both Nestor and Cristina Kirchner would demonstrate a vested interest in protecting this support base that would impact their economic decisions and ultimately the neoliberal model.

Relations with domestic and international business steadily worsened over the course of both the Nestor and Cristina Kirchner administrations. Following the devaluation of the peso by Duhalde in 2001, Nestor Kirchner initiated a monetary policy suited to create growth. Also, as previously discussed, the government took actions to strengthen the unions' bargaining power with employers, thereby creating a gradual increase in wages over the years. These factors generated an environment for growing inflation. Instead of dealing with inflation through monetary policy, the Kirchners used price controls and export bans to protect their constituents' income in civil society.¹²⁰ Increasing international prices and domestic demand were leading to a rise in the price of consumables. By controlling the price and types of exports, the administration could keep domestic prices low. As a result, producers and exporters were severely hurt on their bottom line and struggled to compete in the market. Public utility prices were also frozen.¹²¹ In an environment such as this, production is likely to suffer, which creates even higher demand and the need for subsidies, as witnessed in the Argentine energy sector.¹²²

¹¹⁸ Garay, "Social Policy and Collective Action," 314.

¹¹⁹ Etchemendy and Garay, "Argentina: Left Populism in Comparative Perspective," 295.

¹²⁰ Ibid., 292.

¹²¹ Ibid., 295.

¹²² Robert E. Looney, "Argentina's Dubious Boom," *Foreign Policy*, March 14, 2012, http://www.foreignpolicy.com/articles/2012/03/14/argentinas_dubious_boom.

Over the last few years, Cristina Kirchner has turned to the re-nationalization of some private companies. Since foreign investment has been slow to return after the 2001 crisis and domestic production has been declining amidst export bans and price controls, some scholars attribute the nationalization of these countries as an attempt to gain cash for domestic spending.¹²³ Others portray the moves not as complete reversal of neoliberal privatization, but motivated only in cases where price rate conflicts and market conditions could not be resolved.¹²⁴ In the end, it is clear that the current administration's preference is to guard the incomes of their support base at the cost of alienating domestic and international business and investment. The shift in policy and tactics toward opposition groups under Nestor Kirchner was greatly supported by an influx of funds from an international commodity boom. Cristina Kirchner's administration has not enjoyed such a boom, yet these economic policies remain.¹²⁵

The winners and losers in this period are clear. Domestic and international business interests are stressed to compete in the current economic policy environment. Exporters and utility companies are unable to cover production costs due to price controls and export bans. The threat of nationalization has created an uncertain environment and scared away sorely needed investors. Unions and civil society, on the other hand, have emerged much stronger in the current context. Unions have regained some standing through collective bargaining powers and a return of wages. They have also become more autonomous from politics and "are no longer central political actors but instead perform as agents that provide economic governability while they obtain access to state positions and resources."¹²⁶ Despite high levels of contentious actions at the beginnings of this period, opposition groups of the unemployed and informal workers have found support from the unions while gaining both social and political concessions and increased access to policy making.¹²⁷

¹²³ Roger F. Noriega, and Jose R. Cardenas, "Argentina's Race to the Bottom," *American Enterprise Institute for Public Policy Research*, no. 1 (March 2013): 3.

¹²⁴ Etchemendy and Garay, "Argentina: Left Populism in Comparative Perspective," 293.

¹²⁵ Looney, "Argentina's Dubious Boom."

¹²⁶ Etchemendy and Collier, "Down but Not Out," 394.

¹²⁷ Garay, "Social Policy and Collective Action," 313.

B. CONCLUSION

Since Carlos Menem first initiated radical neoliberal reforms in the 1990s, Argentina has weathered several economic crises, mass mobilizations, and fluctuations in economic growth. Throughout this period, the country continued to represent a free market system, however, the neoliberal model has been weakened due to inconsistencies in the government's approach to dealing with opposition. More specifically, the administrations of Nestor and Cristina Kirchner had pursued the support of opposition groups in a different manner than previous administrations, which caused them to implement policy reforms that helped those groups and alienated others. These policy reforms have tested the boundaries of the neoliberal model in Argentina and deteriorated the provision of its underlying principles.

Consistency in actions toward anti-neoliberal groups reigned in the Reform and Crisis Periods. In order to implement neoliberal reform, Menem judiciously used concessions, special access, and political appointments to build a support coalition among political parties, unions, and domestic and international business. To ease the hardships caused by his reforms, he also created social programs targeted at the poor and unemployed. The neoliberal model was accepted in Argentina during the Reform Period and strong, positive growth was initially achieved. However, due to several factors, the economy lost steam in the Crisis Period and severely retracted. Despite challenges from within his coalition and among unions and civil society throughout his presidencies, Menem stayed consistent in his tactics toward opposition groups. Thus, he was not forced to drastically change the form of the neoliberal model. Inter- and intra-party conflict, crisis, and mass mobilizations prevented De la Rúa from halting the economic crisis. Although he was elected under a different coalition than Menem, De la Rúa refrained from making major reforms of the neoliberal standard and followed Menem's example by employing the same tactics of managing opposition.

At the end of the Crisis Period and devaluation of the peso by Duhalde, the economic and political situation in Argentina had clearly changed. The administrations of Nestor and Cristina Kirchner took steps to strengthen unions and include civil society in ways previous administrations had avoided. To build a support base and dampen

mobilization, Nestor Kirchner facilitated an increase in wages and expansion of social programs. He and Cristina Kirchner sought to maintain the needs of this support base at the cost of the neoliberal model and in the process alienated domestic and international business groups. This desire caused them to implement policies such as price controls and nationalizations that diminished the effectiveness of and, in some instances, collided with neoliberal principles in Argentina.

Over the course of Argentina's neoliberal experiment and its subsequent reforms, the country has experienced turbulent fluctuations in economic growth and decline. Whether due to multiple economic crises, external pressures, political conflict, or domestic troubles, inconsistencies in maintaining a stable neoliberal model surely had an amplifying effect on these fluctuations. The fluidity of policies and ever-changing economic institutions created an uncertain market environment for all parties involved. Stable, positive growth is difficult to achieve under these conditions.

V. CONCLUSIONS

In the end, both Chile and Argentina were able to institutionalize a neoliberal economic standard, however, the degree to which each country was able to generate a stable model through policy and consistency varied. Chile's neoliberal model was able to stay relatively stable with few drastic modifications or departures from foundational neoliberal principles over the course its construction. Argentina's neoliberal model has regressed in strength of principles and stability over time. As this thesis has shown, the way in which governments engage with groups in opposition to neoliberal reform matters for the constancy of the economic system. Consistency in tactics matters. Indeed, while Chile has been able to maintain relatively positive, sustained growth since introducing neoliberal policies, Argentina has experienced fluctuations in economic growth over the same time period.

A. SUMMARY AND FINDINGS

The cases of Chile and Argentina contain some striking similarities in terms of the process of neoliberalizing their economies, yet the consolidation of a stable neoliberal model and trajectory of economic growth have been drastically different. First, setting aside the obvious distinction that Chile began its process under a dictatorship and Argentina under democracy, each country followed the same general path toward liberalizing their respective economies. Faced with deep economic crises, Pinochet and Menem made the drastic choice to enact radical economic reform structures. In accordance with neoliberal principles, both countries downsized the state, privatized business, eliminated price controls, and liberalized trade and labor as the main thrusts of their reforms to open the market. The timing and depth of these processes varied, however, both countries instituted their reforms in a short period of time. Also, again setting aside the obvious distinction of regime type, both Pinochet and Menem consolidated decision-making authority around their inner circle.

Second, each country highlighted relationships among the same groups of potential opposition: domestic and international business, unions, and civil society. In

Chile, Pinochet gained the support of dominant business conglomerates that had the capacity to affect economic growth while marginalizing those business groups that did not. As Chile moved through an economic crisis, Pinochet stayed consistent with this tactic even though he changed which business group he favored with policy decision access. Union organization and influence was completely destabilized and atomized in Chile through strict labor laws and repression. Even as Chile transitioned into democracy, unions were never able to gain a significant foothold in collective bargaining power because each successive administration kept them on the outskirts of influence. Chilean civil society remained dissipated and non-influential as a source of opposition up until the last few years. Leaders have stayed fairly consistent throughout Chile's neoliberal program in its management of civil society through social programs targeted at these groups and the creation of dense networks for social inclusion.

In Argentina, governments have focused their efforts on the same groups although in less consistent ways. Government courted domestic and international business groups through insider access and preferential treatment during the privatizations in the early 90s. In later years, these same groups were weakened and marginalized by other administrations that had different beliefs in how to gain support for their economic agenda. Nationalizations occurred in specific instances while the threat of further nationalization existed in the atmosphere. Unions were engaged on a circumstantial basis throughout Argentina's neoliberal period. Menem successfully undermined union power by causing inter-union conflict via the coopting of some unions and the disregarding of others. Overall, the liberalization of unions was achieved, however, as will be discussed later, the depth to which this occurred compared to Chile is suspect. Argentine unions would regain their organizational autonomy and influence through the actions of later administrations. Lastly, the management of civil society in Argentina occurred through the use of social programs and concessions. Only when opposition groups in civil society joined with unions and disgruntled political leaders did they gain national attention and mass mobilization.

Finally, each country experienced an economic crisis driven by their neoliberal policies approximately ten years following the initiation of reforms. Interestingly, both

Chilean and Argentine decision makers believed the market would correct the situation on its own and neither took direct steps to intervene in the economy in order to divert the impending crisis. Following their respective crises, however, each government engaged in distinctive responses to pull their countries out of danger.

Where Chile and Argentina were different in their neoliberal process gets at the crux of the problem at hand. Chile was able to adjust its policies while keeping the same tactics toward the management of opposition. It is clear that the economy, the neoliberal model, and the maintenance of its principles were the primary goals across each successive government. Chilean leaders dealt with anti-neoliberal opposition in such a way as to diminish the opposition without sacrificing the stability of the economic model. In contrast, the Kirchner administrations altered the way in which anti-neoliberal opposition was handled when compared to earlier administrations. They changed their tactics toward opposition with the priority of maintaining public support instead of upholding the neoliberal model. In other words, they were willing to sacrifice neoliberal principles in order to preserve support and diminish popular demonstrations. Chile's neoliberal model remained stable, whereas Argentina's inconsistencies in oppositional management tactics caused them to alter economic policy and deteriorate the neoliberal model.

Let's take a look at these conclusions more closely with specific examples and comparisons that support the key arguments provided in this thesis. The biggest disparity is evident in the management of unions in each country. According to neoliberal advocates, unions create inefficiencies in the market through their rent-seeking and distortion of real wage values.¹²⁸ Therefore, one fundamental goal for any government seeking to liberalize their economy should be to atomize unions as impediments to the flexibilization of labor. As shown, Chile was not only successful at liberalizing labor through the organizational destruction of unions but also continued to suppress the return of union influence throughout their neoliberal process. The Argentine story of union weight is different. Historical attributes and connections of unions in Argentina made

¹²⁸ Etchemendy and Collier, "Down but Not Out," 384.

them a more difficult beast to tame, and Menem was required to negotiate aspects of their support. Despite these differences, Menem was able to subjugate the organizational power of unions—although not to the same extent as Pinochet in Chile—and his neoliberal policies were adopted. By contrast, the Kirchners desired political support from the unions due to their traditional party beliefs. Their actions in support of unions returned influence to this group and directly impacted the flexibilization of labor that neoliberalism advocates. Union power restricts the freedoms of business to act accordingly in competition within the market system.

Each country's relationship with capitalist business also took varying paths that affected the neoliberal model. Big business in Chile was coopted from the beginning and continued to enjoy a close working relationship with the government. The government used strong business groups to encourage market growth and strengthen the Chilean economy by providing these groups with political access and influence. In Argentina, on the other hand, the Kirchners turned the tables on business groups in order to create an environment that protected their popular support base. In areas where previous administrations provided domestic and international business with political access and fair trade policies, the Kirchners erected barriers to free trade, price controls, and threats of nationalization. Again, their economic policies aimed at shielding their constituents additionally eroded the neoliberal model.

B. POLICY RECOMMENDATIONS

The neoliberal processes of Chile and Argentina provide exceptional case studies for comparison on the effects of an administration's management of economic reform opposition on the form of the neoliberal model. I conclude that the consistency with which successive administrations deal with anti-neoliberal groups can have an influential effect on the way a country's neoliberal model progresses and shapes.

In today's context of the global market, where countries around the world are taking steps to gradually open and close their economies every day, a study such as this can be very enlightening. Examples and comparisons that are relevant in the current environment can help leaders in their analysis of their own economies and apply lessons

learned from the experiences of others. The experiences of Chile and Argentina have shown us that forging a lasting national plan or purpose that extends across time or party affiliation can greatly affect the trajectory of an economic pathway. A strong neoliberal structure is one that fits within the national goals of a country, but also provides stability in policies and institutions in order to reduce market uncertainty. As the Argentine case has shown, uncertainty can lead to capital flight and diminished investments. The sad reality is that Argentina has continued its recent policies along the lines of weakening the neoliberal model. These policies have led to further devaluations of the peso and greater uncertainty in the market. A country that can achieve a strong neoliberal structure with complimentary policies and institutions has the opportunity for positive, sustained economic growth.

This thesis has alluded to a possible connection between a stable neoliberal economic structure and positive, sustained growth; however, making a causal relationship between the two is beyond the scope of this study. Whether or not the Chilean or Argentine neoliberal models, which were shaped out of the actions and policies of each government, had a direct effect on their subsequent trajectories of growth cannot be answered here. Additional research along these lines is worth further examination and would help to define this causal relationship, if it exists.

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